

Pepsi-Cola Company



Annual Report 1960

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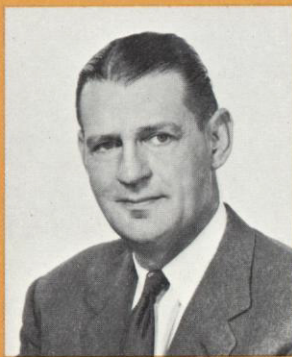
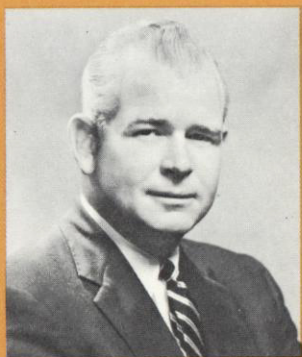
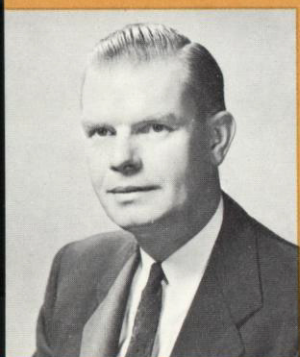
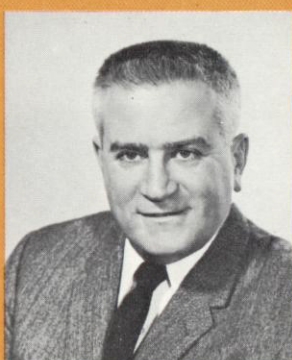
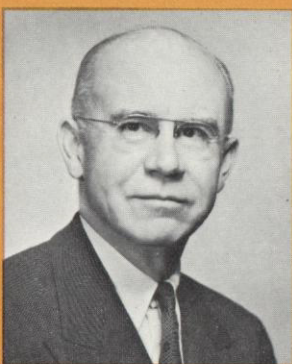
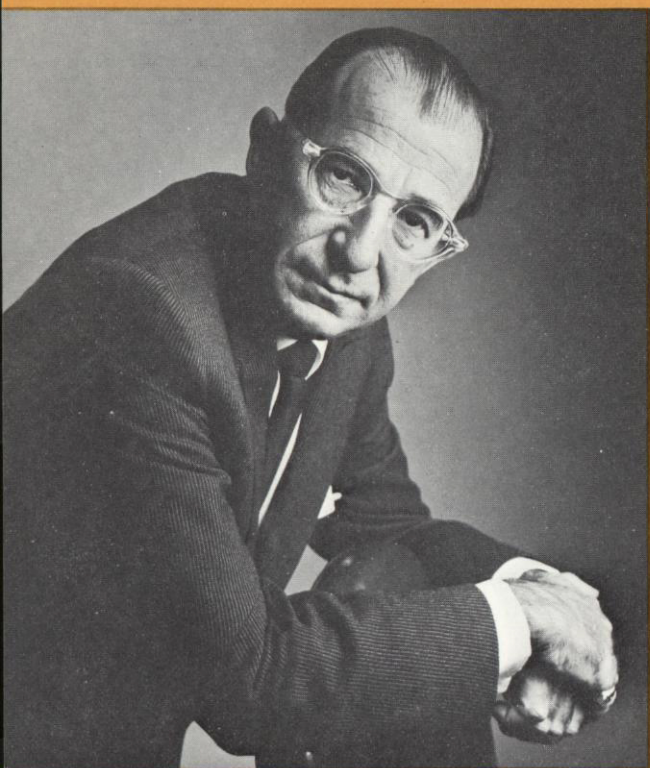


ANNUAL REPORT 1960 PEPSI-COLA COMPANY

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ANNUAL MEETING

The Annual Meeting of our Stockholders, which is held each year at the Company's home office in Wilmington, Delaware, will be held there this year at 2 P.M., Wednesday, May 3, 1961.



READ CLOCKWISE

Herbert L. Barnet, *President and Chief Executive Officer*
 Milward W. Martin, *Senior Vice-President (Law) and Secretary*
 Thomas Elmezzi, *Senior Vice-President, Manufacturing*
 Louis E. Nufer, *Senior Vice-President and Treasurer*
 Donald M. Kendall, *President of Pepsi-Cola International, Ltd.*
 Adolph Krieger, Jr., *Administrative Vice-President and Controller*



TO THE STOCKHOLDERS OF PEPSI-COLA COMPANY:

In the face of the recession which retarded most businesses in 1960 and an exceptionally cool summer which notably diminished the sale of all soft drinks, Pepsi-Cola Company not only held firm, but again, as in ten preceding years, actually exceeded its growth of the year before. Reported earnings and case sales were the highest in our history.

Elimination of our Cuban operations in the consolidated report and currency devaluation in the Philippines adversely affected our reported sales by some \$6,000,000.

In a year of innovations we made numerous marketing changes with a view to future sales opportunities, perhaps the most significant of which was the formulating of new advertising themes and designs with a new agency. The campaign developed during 1960 is now appearing in the theme "Now It's Pepsi—For Those Who Think Young."

Our foreign markets enjoyed notable increases. Our other products, PATIO, introduced for the first time in 1960, and TEEM, now two years old, are showing vigorous growth.

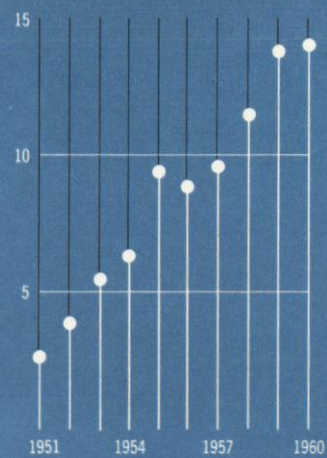
Prospects of continued growth in ever-expanding markets and populations appear excellent. Within its large-scale design of progress, your management is zealously pursuing this expanding opportunity that lies ahead.

On the following pages we report to you on operations and results in 1960.

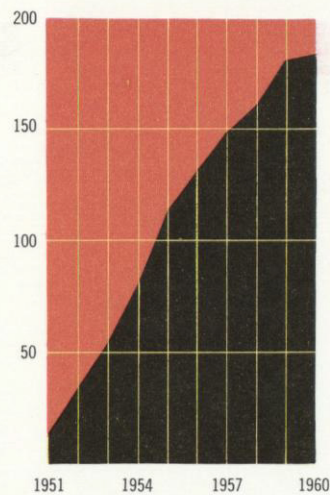
Herbert L. Barnet, *President*



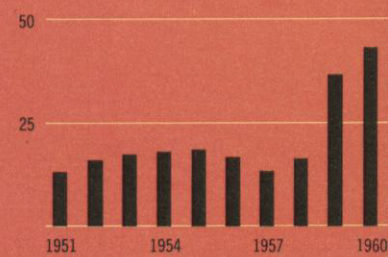
NET INCOME
in millions



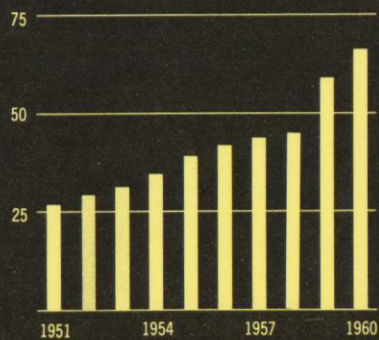
DOMESTIC CASE SALES GAINS
per cent increase over 1950



WORKING CAPITAL
in millions



STOCKHOLDERS EQUITY
in millions



SALES

EARNINGS

AND DIVIDENDS



PEPSI-COLA COMPANY

Reported case sales were the highest in history, as they have been for eleven consecutive years. Reported earnings, similarly, exceeded those of all previous years.

Per share earnings in 1960 were \$2.18 per share based on 6,495,955 shares outstanding at December 31, 1960, compared with \$2.17 per share in 1959 on 6,384,415 shares outstanding at December 31, 1959.

Net income, after adjustment for Foreign Activities, was \$14,180,705 in 1960 compared with \$13,873,843 in 1959.

The losses resulting from the intervention in our Cuban operations by the government of Cuba in June 1960 have been charged to the Reserve for Foreign Activities, and resulting tax benefits have been credited thereto, and therefore have not adversely affected our net income for 1960.

For each of the four quarters of 1960, the Company paid shareholders dividends of 35 cents a share, or \$1.40 per share for the year.

Earnings Per Share of Capital Stock

1951	\$.46	1956	\$1.50
1952	.68	1957	1.61
1953	.95	1958	1.88
1954	1.07	1959	2.17
1955	1.60	1960	2.18

Dividends

DECLARED	AMOUNT	PAID
February 9, 1960	\$.35	March 31, 1960
May 5, 1960	.35	June 30, 1960
August 25, 1960	.35	September 30, 1960
November 21, 1960	.35	December 31, 1960

MONDAY

11:30 a.m.—(13) **TV Handstand**. Film shorts of the big dance band of the Twenties and Forties. **Premiere.**
12:00 noon—(13) **Don't Call Us, We'll Call You**. Paraphrase from various authors' answers to queries in this daily series. **Dee Dee** is moderator. **Premiere.**
1:30—(13) **Teen Quiz**. With Clay Cole as host. **Premiere.**
2:30—(13) **Mike Wallace, Guest Is Ed Sullivan**.
3:30—(13) **Special**. "A Matter of Time." With Barry Chase, Carol Dade and Herman Phil. **Dancers Color Repeat.**
4:30—(13) **Play of the Week**. "The Magic and the Moon." With Patricia Neal, Jeffrey Lynn and Yoko Cuykendall.
5:30—(12) **Bringing Up Binky**. Richard Mason plays a 12-year-old boy. With Frank Aletter. **End Marley.**
6:30—(12) **Andy Griffith**. Deputy Barney gets too confidential and screws the entire town of Mayberry.
7:30—(13) **Kingdom of the Sea**. "Harvest from the Sea." Fishing from a modern crab trawler. **Color.**
8:30—(13) **Barbara Stanwyck**. Lee Marvin and Barbara star in "Confession," as two clever schemers.
9:30—(13) **June Allyson and Dick Shawn** in "The End of the Fabled Way."

TUESDAY

1:00—(13) **Expedition**. "Man's First Winter at the South Pole." **Color.**
7:30—(13) **Boxing Round**. Vocalist Larry Dink, sings the hit song "Faded" from "The Barber of Seville."
8:30—(13) **An Age of Kings**. "Sage of War." Film half of Shakespeare's "Henry V." **Repetited ending at 10 p.m.**
9:30—(13) **Mike Wallace, Guest Is Henry Youngman**.
10:30—(13) **Play of the Week**. "The Magic and the Moon." With Patricia Neal, Jeffrey Lynn and Yoko Cuykendall.
11:30—(13) **Alfred Hitchcock**. "Dead End." **Color.**
12:30—(13) **Thriller**. "The Foghorn of Fear," a drama about a child killer at large. **Schumacher Verdict.** **Robert Middleton.**
1:30—(13) **Red Skelton**. Al Capp takes Elton Kachidishopper on a tour of Duryodh. **With Peter Palmer, Muffy Kaye, Betsy.**
2:30—(13) **Special**. "Africa: Five Minutes in Twelve." **Barry Moore** and **Anthony Moore**. **Guests are Peter LaFord, Paul.**
3:30—(13) **TV Preview**. A drama examines George Washington in make a fatal decision concerning America's future.
4:30—(13) **Jack Paar**. **Guests are Pat Suzuki and the** **11:30—(13) Brothers**. A comedy team. **Color.**

WEDNESDAY

11:30 a.m.—(13) **President's press conference**. **Color.**
12:00 noon—(13) **The Apartment**. A new film by **Jack Lemmon** and **Rita Hayworth**. **Color.**
1:30—(13) **Play of the Week**. "The Magic and the Moon." With Patricia Neal, Jeffrey Lynn and Yoko Cuykendall.
2:30—(13) **Special**. "A Matter of Time." With Barry Chase, Carol Dade and Herman Phil. **Dancers Color Repeat.**
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At home, at fountains, everywhere—



now it's Pepsi
for those who think young
tempo. More activities—more time to enjoy them. This is the life for Pepsi—light, bracing, clean-tasting Pepsi. In stores, at fountains, say "Pepsi, please!"



SALES ACTIVITIES



PEPSI-COLA COMPANY

All people everywhere—this is the Pepsi market. Everything people see—packaging, advertising, promotion, equipment—must have broad appeal and impact. Toward this end the Company developed new packaging, new promotion, new advertising, and introduced new products in 1960.

ADVERTISING

Early in the year the Company appointed Batton, Barton, Durstine and Osborn, Inc. as its new advertising agency, revamped its advertising concepts, and prepared a new series of ads for 1961.

"Now It's Pepsi—For Those Who Think Young" is designed to have the widest appeal and most stirring impact. The new ads show modern, up-to-date people enjoying Pepsi-Cola with a friendly, enthusiastic and light-hearted approach that characterizes the Pepsi personality.

In 1960, national advertising alone delivered over 5,000,000,000 radio impressions and almost 2,000,000,000 print impressions in national magazines and newspapers. Pepsi-Cola Company was the largest user of network radio and the fifth largest user of newspaper ads in color.

Pepsi TV programming will star Jane Powell, one of America's best-liked singing, dancing

and acting personalities. She will be seen in a TV "special" April 28, 1961, and will star in a weekly comedy series in the fall co-sponsored by Pepsi-Cola Company.

NEW PRODUCTS

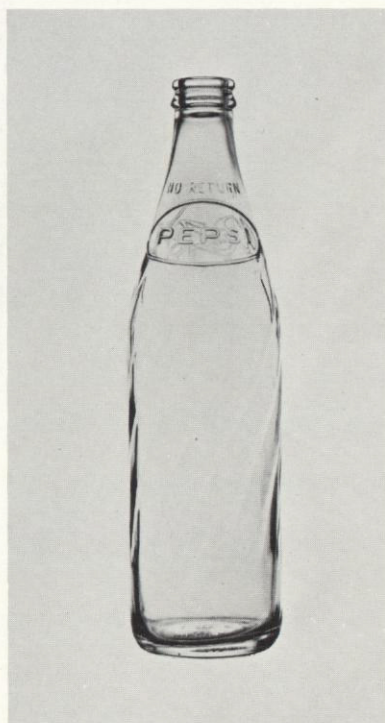
Last year we reported that a new product called TEEM, a lemon-lime beverage, had been introduced and was being introduced market-by-market across the country. By December, 1960, it was being sold in more than 130 Pepsi franchises, available to about 25% of the national population, and growing rapidly.

At the Company Convention in February, 1960, after a development period of several years, we introduced a full line of flavor drinks under the trade name of PATIO. By the end of the year, more than 40 Bottlers had begun production in their local areas.

Under the PATIO label, flavors include Orange, Grape, Root Beer, Strawberry, Ginger Ale, and Club Soda. Each of these is available in 7, 8, 10, 12, 16 and 26-ounce bottles, and in cans. The market-by-market distribution and growth of our new products is gaining momentum in vending outlets as well. Many vending machines today carry more than one soft drink so that a combination of Pepsi, TEEM, and PATIO orange, for example, gives the Pepsi bottler an advantage in selling to vending outlets.



The new No Deposit—
No Return bottle for Pepsi.



PACKAGING

In 1960, for the rapidly growing "convenience market," the Company introduced the no-deposit, no-return bottle in a distinctive design made especially for Pepsi-Cola.

In addition, we redesigned cans for Pepsi and reorganized the distribution of cans through Bottlers to serve the general public. Previously, Pepsi in cans was primarily sold to military and industrial locations.

Special contract canning plants, from which the Company sells canned Pepsi-Cola at a uniform price to all Bottlers, provide a potentially large-scale Company operation, and in addition protect the Bottler's rights in his local franchise.

With the further development of the 16-ounce bottle, Pepsi now is available in 6½, 8, 10, 12, 16, and 26-ounce sizes. New carton designs were also developed during 1960.

Under development by the end of the year, a new eight bottle carton carrier for Pepsi will provide another innovation to Pepsi-Cola convenience packaging.

The modern (swirl) design Pepsi bottle is now in all Pepsi franchises and has almost completely replaced the older design.



VENDING

Purchases of vending equipment by Bottlers rose 30%. Pepsi vending outlets constitute a steadily growing and important market. Incentive programs for Bottlers conducted by the Company helped spur the drive for more vending outlets. Aluminum merchandiser sheds to vend whole cases of Pepsi were developed and field tested to open many new outlets for Pepsi as well as increase the size of the individual purchase by consumers.

New vending machines for Pepsi-Cola in cans were developed during 1960.

FOUNTAIN SALES

We moved strongly into the large syrup market (fountain dispensers in drug stores, restaurants and the like) with sales up over 15% in 1960. New equipment and a vigorous development program are aiding this increasing growth.

Instituted in 1960, new equipment and handling techniques enabled Bottlers to sell Pepsi in many more high-volume locations such as stadiums, heavy industrial outlets, amusement centers, sports events, convention halls, hotels, drive-in restaurants, theaters, and so forth.



PROMOTIONS

A notably successful contest in 1960 placed almost 90,000 merchandising equipment items and over 80,000 items of advertising material. Additional promotions, seasonal in nature, built sales through larger in-store displays, tying Pepsi to parties and other gatherings.

Our sales increased sharply with important national groups such as hotel, theater, drug store and restaurant chains, and with vending distributorships, and government agencies.

An improved program for systematic selling and service to grocery chains put us into better position with top management of leading national grocery chains, which now account for 86% of the total U.S. grocery sales.

Seeking to develop the important "Mobile Market" of service station sales, a majority of the nation's Pepsi-Cola Bottlers participated in the huge campaign of service station sales. To foster the highest levels of excellence in management among bottling executives, the Company conducted its first week-long management conference and 30 Sales Workshops for 1200 Route Managers from 45 states, and prepared sales training materials—films, meeting guides and booklets—used by Bottlers across the country.



Your Company supports the United States Junior Chambers of Commerce in their sponsorship of over 2,000 junior golf and tennis tournaments across the country.



IDENTITY IN PUBLIC AFFAIRS

Participation in many public affairs identified Pepsi with activities people like and respect. The official soft drink of the Winter Olympics in Squaw Valley, Pepsi was consumed in vast quantities to much publicity and acclaim at the national conventions of both political parties, at the International Boy Scout Jamboree in Colorado Springs, and in scores of conventions such as those of the Jaycees and the American Medical Association.

Extensive publicity resulted from the concert tour made by Louis Armstrong and the All-Stars in West Africa, sponsored by the Company. It not only helped sales, but the resultant good will induced our State Department to sponsor the group for an extension of the tour. Again, we assisted the Junior Chambers of Commerce in their state and national junior golf and tennis tournaments.

Sponsorship of the Miss America Pageants locally and nationally again provided state winners, runners-up, and Miss America with college scholarships and further identified Pepsi with this worthy community activity. By the end of the year, at least 300 young girls were paying for their education in part by these funds.

"The Pepsi Ice Capers" in Grand Central Station's "Investment Information Center," main-

At the Winter Olympics in Squaw Valley, California: Pepsi, the official soft drink.



Miss America 1961—like the finalists from all states every year—is a Pepsi-Cola Scholarship winner.



The lobby of Pepsi-Cola World Headquarters at 500 Park Avenue, housing exciting exhibits, is fast becoming a smart showplace. Here, the November exhibit of French Posters.

Half a million cups of Pepsi were consumed by thirsty Boy Scouts at their National Jamboree in Colorado Springs, Colorado.



Pepsi was everywhere at the conventions of both political parties.



tained by Merrill Lynch, Pierce, Fenner and Smith, Inc., during July and August was attended by well over a quarter of a million people. Monthly exhibits on a high level of public service and design (see color photo page 13) in the lobby of our building at 500 Park Avenue in New York continue to attract constant visitors to the extent that the location is fast becoming one of the city's "places to visit."

ADMINISTRATION

In July, 1960, the Board of Directors elected to its membership Thomas Elmezzi, Senior Vice President in charge of Manufacturing.

In the same month, Adolph Krieger, Jr., Controller, was made Administrative Vice President.

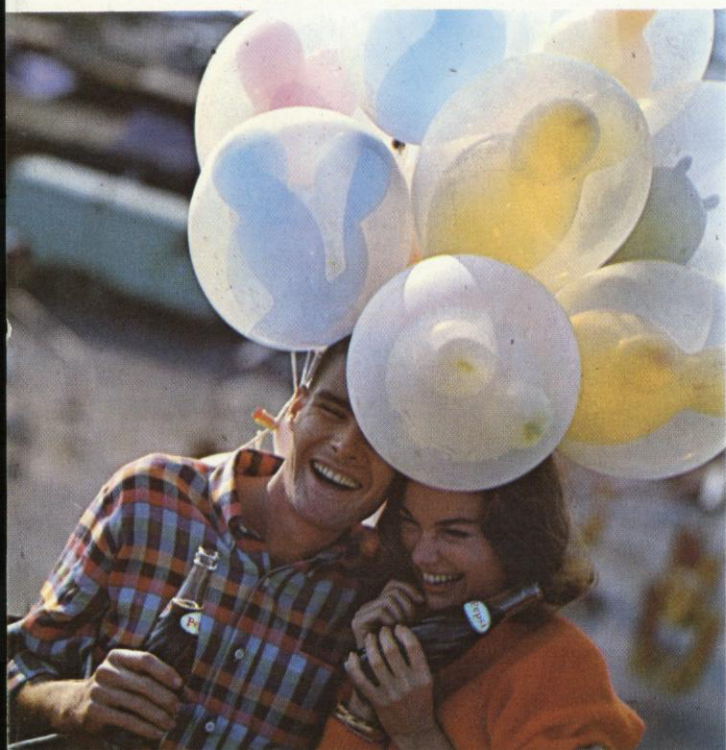
Emmett R. O'Connell, Director and Executive Vice President, who had been employed by the Company since 1949, died suddenly on July 6th, 1960.

On January 24th, 1961, following a long illness, James W. Carkner, Honorary Chairman of the Board, ended in death a career with Pepsi-Cola Company which had begun in the earliest days of Pepsi-Cola's national distribution, a development in which he played a leading role. To fill the vacancy created by his death, Donald M. Kendall, President of Pepsi-Cola International, Ltd., was elected to the Board of Directors just prior to publication of this report.

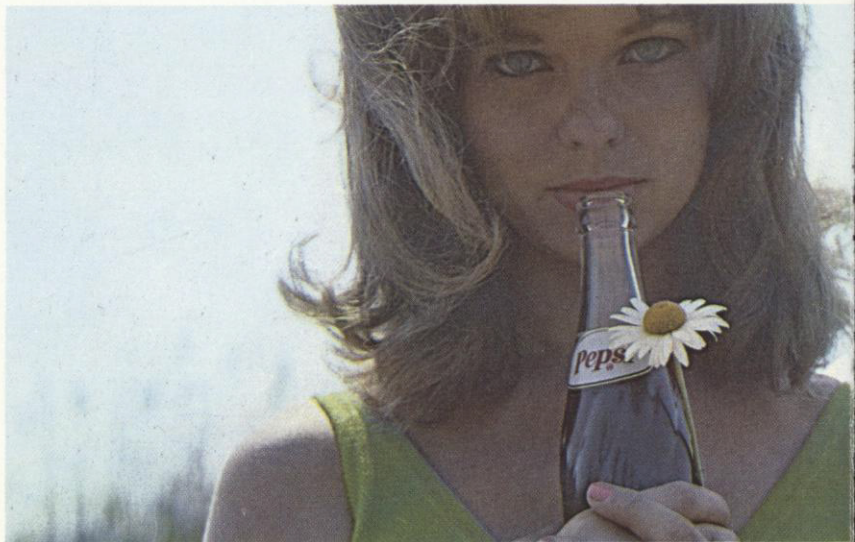
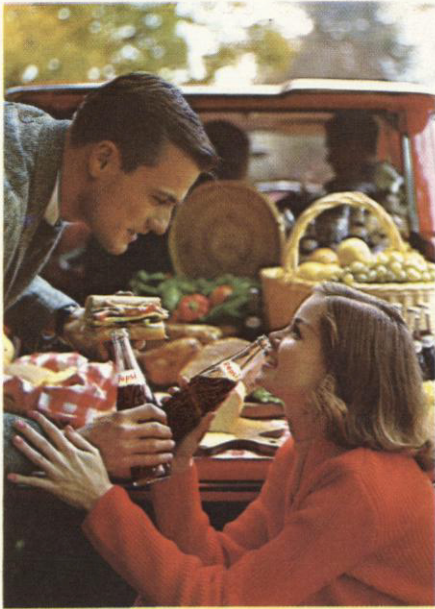
Marc A. Lefebvre, previously Vice President for the Eastern Division, was appointed Vice President in charge of Field Operations, a new post, and Frederick Sorenson then replaced him as Vice President for the Eastern Division. Richard C. Petrie, formerly Executive Vice President of Pepsi-Cola Metropolitan Bottling Company, was named Vice President for the Southern Division, with offices in Dallas.

FOR THOSE WHO THINK YOUNG...













"Now It's Pepsi—for those
Who Think Young"

The new advertising campaign reflects the personality of Pepsi and the life people lead today—modern, up-to-date, youthfully vigorous, forward looking. The people of our new advertising are a part of this American life. Whatever their ages, they *think* young. The new theme also reflects marketing leadership plans. "Special" and regular TV programs, heavy radio and TV advertising to launch the new Pepsi song, and colorful pages of print, are all designed for Pepsi-Cola leadership.

"Now It's Pepsi—for those
Who Think Young"





WORLD WIDE PLANT EXPANSION

In 1960, nine new Pepsi bottling plants were completed in the United States alone and 25 more were under construction or planned for completion in 1961.

Opened in 1960 were Santa Rosa, California; Gainesville, Florida; Quincy, Illinois; Detroit, Michigan; Sidney, Montana; Medford, Oregon; Moncks Corner, South Carolina; Conroe, Texas; and Salt Lake City, Utah.

At 40 locations in the United States, plant facilities were expanded by extra warehouses or building additions during the year.

For the second consecutive year, Pepsi-Cola International set a new record in number of new plant openings. Forty plants were inaugurated in 19 countries, making a total of 237 plants serving 86 countries and territories outside the United States and Canada.

During 1960, six countries were introduced to Pepsi for the first time: Nigeria, Algeria, South Vietnam, Spanish Guinea (Fernando Poo), Senegal and Northern Rhodesia. Twelve plants were opened in Europe during the past year, including eight in Germany.

Scheduled abroad for 1961 are 38 new plants. At least eight new countries will then be introduced to Pepsi for the first time, among which are: Italy, Argentina, Switzerland, Qatar, Trucial Oman and Nyasaland.



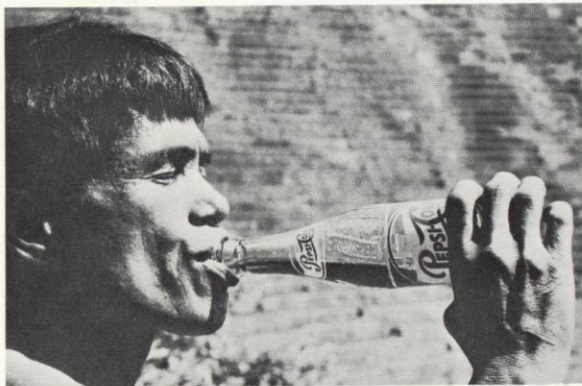
THE INTERNATIONAL STORY



In every way, 1960 is the biggest year on record for Pepsi-Cola International, Ltd. Sales and income rose to the highest levels ever. Another index of Pepsi's worldwide appeal is the record number of franchise applications from businessmen and groups around the globe.

There were five new plants in the Union of South Africa, three in Nigeria, one in Spanish Guinea (Fernando Poo), one in Senegal, one in Algeria and one in Northern Rhodesia. Six new plants were opened in Australia, one in South Vietnam, and one in New Zealand. In South America seven new plants were inaugurated: three in Colombia, and one each in Venezuela, Ecuador, Chile and Trinidad. The 38th plant in Mexico was opened in Tapachula. The sixth plant in the Philippines was opened at Tanauan on Leyte Island.





More than 20% of our foreign franchises sold over 1,000,000 cases of Pepsi during the year. More than a third of our Pan American and South American Bottlers sold over 1,000,000 cases in 1960.

Our new flavor line of products for foreign consumption called Mirinda began to catch on around the world. These flavor drinks (the foreign equivalent of PATIO and TEEM) are now available in more than 24 franchised territories in the Middle East, Far East and Africa. The Company plans to introduce Mirinda to other countries in 1961.

The advertising theme for Pepsi abroad, "The Refreshment of Friendship," received from Company and Bottlers more than a \$20,000,-000 push around the world. Movie showings in remote areas, musical carnivals, Pepsi Fiestas, and the like, reached a record number of people during 1960.





Automatic Brix Analyzer performs in a matter of minutes a complex measurement for sugar content. Every Pepsi bottling plant in the world undergoes constant sampling for various quality control tests.

MANUFACTURING & TECHNICAL SERVICES

Through constant technical disciplines, such as chemical analyses, schools for production personnel, visits of traveling laboratories and the closest supervision of all productive operations, we maintained the industry's highest standards of quality control throughout the world.

During 1960 five new production schools and five clinics were conducted for more than 350 production supervisors from Pepsi bottling plants across the country.

A Quality Control Manual was distributed to Bottlers early in the year to help them measure standards of production. Research and testing of all Pepsi-Cola Company products, including the PATIO flavor line and TEEM, upheld the most stringent standards.

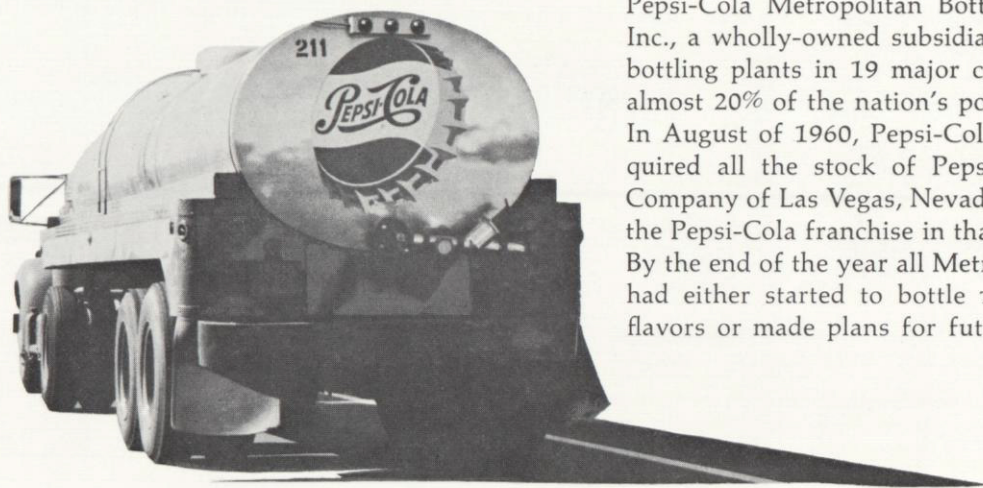
COMPANY-OWNED PLANTS

Pepsi-Cola Metropolitan Bottling Company, Inc., a wholly-owned subsidiary, operates 22 bottling plants in 19 major cities containing almost 20% of the nation's population.

In August of 1960, Pepsi-Cola Company acquired all the stock of Pepsi-Cola Bottling Company of Las Vegas, Nevada, the holder of the Pepsi-Cola franchise in that area.

By the end of the year all Metropolitan plants had either started to bottle TEEM and PATIO flavors or made plans for future production.

Concentrate tank truck enroute to plant.



Pepsi-Cola Company and Consolidated Subsidiaries

TEN-YEAR COMPARISON

FINANCIAL RESULTS

	Gross Profit on Sales	Net Income	Earnings Per Share	Dividends	Dividends Per Share	Shares Outstanding
1960	\$113,973,255	\$14,180,705	\$2.18	\$9,052,690	\$1.40	6,495,955
1959	113,577,759	13,873,843	2.17	7,833,818	1.25	6,384,415
1958	98,372,489	11,547,954	1.88	7,238,496	1.20	6,138,755
1957	85,564,391	9,559,675	1.61	6,220,528	1.05	5,926,205
1956	69,139,792	8,884,787	1.50	5,915,830	1.00	5,918,655
1955	62,823,327	9,456,766	1.60	5,897,090	1.00	5,909,005
1954	51,787,727	6,212,690	1.07	3,769,493	.65	5,813,155
1953	45,419,752	5,476,882	.95	2,871,752	.50	5,743,505
1952	35,022,415	3,880,362	.68	2,010,227	.35	5,743,505
1951	30,216,383	2,632,181	.46			5,736,005

FINANCIAL POSITION

	Current Assets	Current Liabilities	Working Capital	Fixed Assets —Net	Other Assets	Long Term Indebtedness and Customers' Deposits	Reserve for Foreign Activities	Stockholders' Equity	Book Value Per Share
1960	\$63,176,165	\$19,031,454	\$44,144,711	\$39,770,876	\$11,315,498	\$24,912,379	\$4,143,172	\$66,175,534*	\$10.19
1959	58,681,888	23,430,599	35,251,289	37,742,852	12,712,000	22,516,154	4,595,467	58,594,520*	9.18
1958	36,252,272	19,019,387	17,232,885	34,049,468	13,637,942	12,804,641	3,104,950	49,010,704*	7.98
1957	33,748,837	19,396,554	14,352,283	31,839,309	11,777,999	12,394,706		45,574,885	7.69
1956	32,018,582	14,566,258	17,452,324	24,323,023	6,390,925	6,002,051		42,164,221	7.12
1955	32,803,026	14,300,372	18,502,654	20,103,341	5,180,719	4,692,600		39,094,114	6.62
1954	29,309,566	11,227,522	18,082,044	17,172,325	4,305,246	4,939,642		34,619,973	5.96
1953	29,850,407	11,854,418	17,995,989	14,758,730	3,963,617	5,111,280		31,607,056	5.50
1952	23,459,670	7,048,898	16,410,772	13,980,506	3,720,446	5,109,798		29,001,926	5.05
1951	18,538,797	4,830,536	13,708,261	15,044,434	3,374,015	5,309,341		26,817,369	4.68

*After reduction attributable to Reserve for Foreign Activities.

ACCOUNTANTS' OPINION

HASKINS & SELLS

Certified Public Accountants

Two Broadway
New York 4

The Directors and Stockholders
of Pepsi-Cola Company:

We have examined the consolidated balance sheet of Pepsi-Cola Company and its consolidated subsidiaries as of December 31, 1960 and the related statements of consolidated income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and surplus present fairly the financial position of the companies at December 31, 1960 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

March 14, 1961

Pepsi-Cola Company and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEET

ASSETS	DECEMBER 31	1960	1959
CURRENT ASSETS:			
Cash		\$ 32,920,081	\$ 24,370,997
United States and Canadian Government securities— at cost (approximately market)		9,464,931	15,345,460
Notes and accounts receivable (less allowance for doubtful receivables— 1960, \$817,484; 1959, \$750,648)		9,843,649	7,948,050
Inventories—at cost, not in excess of market:			
Finished, in-process, raw materials and supplies		9,505,884	9,730,673
Vending equipment held for resale		1,441,620	1,286,708
Total current assets		63,176,165	58,681,888
MISCELLANEOUS ASSETS:			
Notes and accounts receivable—not current		2,312,870	3,297,808
Investment in and advances to subsidiary not consolidated		595,455	494,482
Other		462,083	808,257
Total miscellaneous assets		3,370,408	4,600,547
PROPERTY, PLANT AND EQUIPMENT:			
Land, buildings, equipment, leasehold improvements, etc.—at cost (less depreciation and amortization—1960, \$28,587,161; 1959, \$27,019,715)		31,868,049	29,686,014
Bottles and cases on hand and with trade (principally at estimated depreciated values)		7,902,827	8,056,838
Total property, plant and equipment—net		39,770,876	37,742,852
DEFERRED CHARGES:			
Prepaid insurance, taxes, etc.		1,196,205	1,145,419
Advertising materials and expenses		2,634,914	2,456,986
Other		559,808	496,941
Total deferred charges		4,390,927	4,099,346
TRADEMARKS, FORMULAS AND GOODWILL (less amortization)		3,554,163	4,012,107
TOTAL		\$114,262,539	\$109,136,740

Reference is made to the accompanying Notes to Financial Statements starting at Page 32.

Pepsi-Cola Company and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEET

LIABILITIES	DECEMBER 31	1960	1959
CURRENT LIABILITIES:			
Notes payable (including current installments on long-term indebtedness) . . .	\$ 247,033	\$ 1,345,177	
Accounts payable and accrued	8,817,228	11,030,383	
Accrued taxes:			
United States and foreign income taxes	7,916,112	8,947,690	
Other taxes	2,051,081	2,107,349	
Total current liabilities (exclusive of customers' deposits on bottles and cases, shown below)	19,031,454	23,430,599	
OTHER LIABILITIES:			
Long-term indebtedness (current installments included above):			
5¼% notes (payable in annual installments of \$1,250,000 from 1962 to 1973; the balance payable in 1974)	20,000,000	18,000,000	
Other	572,535	353,240	
Customers' deposits on bottles and cases	4,339,844	4,162,914	
Total other liabilities	24,912,379	22,516,154	
RESERVE FOR FOREIGN ACTIVITIES	4,143,172	4,595,467	
CAPITAL STOCK AND SURPLUS:			
Capital stock—authorized, 7,500,000 shares of 33⅓¢ each; issued and outstanding at December 31, 1960, 6,495,955 shares	2,165,318	2,128,138	
Capital surplus	10,726,323	8,360,351	
Earned surplus	53,283,893	48,106,031	
Total capital stock and surplus	66,175,534	58,594,520	
TOTAL	\$114,262,539	\$109,136,740	

Reference is made to the accompanying Notes to Financial Statements starting at Page 32.

Pepsi-Cola Company and Consolidated Subsidiaries

CONSOLIDATED INCOME

	1960	1959
Net Sales	\$157,672,258	\$157,769,109
Cost of Sales	43,699,003	44,191,350
Gross Profit on Sales	113,973,255	113,577,759
Advertising, Selling, Shipping, General and Administrative Expenses	85,848,713	82,721,175
Profit from Operations	28,124,542	30,856,584
Other Income	1,636,486	1,312,187
Total Income	29,761,028	32,168,771
Income Charges:		
Interest on indebtedness	994,750	979,212
Losses arising from devaluation of foreign currencies	935,006	61,468
Other	514,048	933,731
Total	2,443,804	1,974,411
Income Before Income Taxes	27,317,224	30,194,360
Provisions for United States and Foreign Income Taxes:		
United States	9,300,000	10,430,000
Foreign	4,360,000	4,400,000
Total	13,660,000	14,830,000
Income After Provisions for Income Taxes	13,657,224	15,364,360
Adjustment for Foreign Activities	523,481	(1,490,517)
Net Income	\$ 14,180,705	\$ 13,873,843

Reference is made to the accompanying Notes to Financial Statements starting at Page 32.

Pepsi-Cola Company and Consolidated Subsidiaries

CONSOLIDATED SURPLUS

1960

EARNED SURPLUS

Balance, January 1, 1960	\$48,106,031
Net income for the year	14,180,705
Dividend remitted by a foreign subsidiary in excess of undistributed earnings since inception of the Reserve for Foreign Activities	49,847
	<u>62,336,583</u>
Less dividends paid—cash (\$1.40 a share)	9,052,690
Balance, December 31, 1960	<u>\$53,283,893</u>

CAPITAL SURPLUS

Balance, January 1, 1960	\$ 8,360,351
Excess of proceeds over par value of 111,540 shares of capital stock issued under stock option plans	2,365,972
Balance, December 31, 1960	<u>\$10,726,323</u>

Reference is made to the accompanying Notes to Financial Statements starting at Page 32.

DECEMBER 31, 1960

1. The consolidated financial statements include the accounts of all active subsidiaries except the British subsidiary (which has been excluded since 1950).

The assets and liabilities of foreign subsidiaries have been translated into United States dollars at current rates of exchange, except that property, plant and equipment (and related depreciation) have been translated at rates prevailing at dates of acquisition; income and expenses (other than depreciation) have been translated at rates prevailing during the year.

The net current assets, total assets, and total liabilities of consolidated foreign subsidiaries (other than Canadian subsidiaries), stated in terms of United States dollars, were \$4,820,912, \$17,413,071 and \$3,313,139, respectively, at December 31, 1960. The net assets of the British subsidiary (not consolidated) were \$691,710.

The Cuban operations are not included in the accompanying financial statements for 1960. The assets in Cuba as of the beginning of the year have been written off against the Reserve for Foreign Activities and such reserve has been credited with the related United States income tax reduction, the net effect being a credit of \$121,000 to the reserve.

2. It is the policy of the Company to exclude from consolidated net income and consolidated earned surplus the unremitted earnings of foreign subsidiaries, other than Canadian subsidiaries, by providing a Reserve for Foreign Activities. A transfer is made each year to or from the reserve representing (a) such subsidiaries' unremitted profits (before devaluation

charges) less applicable charges for amortization of goodwill, and (b) losses arising from devaluation of foreign currencies. The adjustment for foreign activities in 1960 represents devaluation losses of \$935,006, principally in the Philippines, less unremitted profits of \$411,525 determined as in (a) above.

3. United States income tax returns of the Company and principal domestic subsidiaries have been examined and settled through the year 1957; Canadian taxes of Canadian subsidiaries have been settled through the year 1958.

4. The loan agreements relating to the 5¼% notes payable contain various restrictions including provisions relating to the maintenance of consolidated working capital of the Company and certain subsidiaries, and restrictions on the payment of dividends and the purchase of shares of the Company's capital stock. Of the consolidated earned surplus at December 31, 1960, approximately \$18,000,000 was free of restriction.

5. At January 1, 1960, under Stock Option Plans approved by the stockholders in 1956 and 1960, there were outstanding options to purchase 263,090 shares and 108,450 shares were reserved for the granting of additional options. During 1960 options for 13,500 shares were granted for an aggregate option price of \$607,500, options for 111,540 shares were exercised for an aggregate option price of \$2,403,152, and options for 11,700 shares were cancelled. At December

31, 1960 options were outstanding with respect to 153,350 shares having an aggregate option price of \$4,752,492 and 106,650 shares were reserved for the granting of additional options.

Under the terms of the Plans, options must be granted at not less than 85% of the highest market price on the date of grant; all options granted in 1960 were at 100% of market. Options granted under the 1956 Plan are exercisable within five years from the respective dates of grants; options granted under the 1960 Plan are exercisable within eight years.

6. In February, 1960, a stockholder owning 100 shares of the Company's stock instituted on the Company's behalf two identical actions, one in the Delaware Chancery Court and the other in the New York Supreme Court, against the directors of the Company and the Executors of the Estate of Alfred N. Steele. These complaints allege that stock options issued to Mr. Steele for 30,000 shares, to Mr. Barnet for 10,000 shares, and to Mr. Forsythe for 2,500 shares, were issued without valid or sufficient consideration and that their exercise should be enjoined; that the death benefits payable to Mr. Steele's widow under his employment contract are too large; and that at various times during the preceding three years substantial sums of money were paid for Mr. Steele's account for insufficient consideration, for all of which the named directors should be required to account to the Company. All of the charges are denied by the directors. Pursuant to an order of the Delaware Chancery Court Mr. Steele's Estate, having exercised his option,

caused the shares to be sold and the proceeds to be held in escrow pending final decision. On December 31, 1960, \$389,000 principal amount of United States Treasury Bills and \$7,128 in cash were so held in escrow by the Company, which are not included in the accompanying balance sheet.

7. The Company and its consolidated subsidiaries are lessees under 41 leases having unexpired terms of more than three years which expire at various dates to 1992. The present minimum aggregate annual rental under these leases is approximately \$1,800,000.

8. At December 31, 1960 the Company and consolidated subsidiaries were contingently liable as guarantors of loans, principally to various franchised Bottlers, aggregating approximately \$3,700,000. Other guarantees by the Company amount to \$800,000.

9. Certain vending equipment acquired by Bottlers is purchased by them on the installment basis; unpaid balances on such acquisitions amounted to approximately \$12,200,000 at December 31, 1960. The Company has agreed to purchase such equipment, in the event of default by the buyers, for the unpaid balance; purchases by the Company under such agreements have been immaterial.

10. The provisions for depreciation and amortization amounted to \$5,400,000 in 1960, and to \$5,300,000 in 1959.

BOARD OF DIRECTORS

Herbert L. Barnet
 Charles Allen, Jr.
 Sheldon R. Coons
 Thomas Elmezzi
 James Felt
 Harry E. Gould
 Mortimer Hays
 Christopher E. Holzworth
 Donald M. Kendall
 Milward W. Martin
 J. Lincoln Morris
 Dr. Louis A. Rezzonico
 Joan Crawford Steele
 George C. Textor

OFFICERS

Herbert L. Barnet, *President and Chief Executive Officer*
 Thomas Elmezzi, *Senior Vice-President, Manufacturing*
 Adolph Krieger, Jr., *Administrative Vice-President and Controller*
 Milward W. Martin, *Senior Vice-President (Law) and Secretary*
 Louis E. Nufer, *Senior Vice-President and Treasurer*

VICE PRESIDENTS

Charles N. Baker, *National Sales*
 John L. Bate, *Western Division*
 D. Mitchell Cox, *Public Relations*
 Roy L. Dossin
 William C. Durkee, *Marketing*
 Stephen L. Galvin, *Director of Research*
 Stephen J. Gullo, *Technical Services*
 Philip B. Hinerfeld, *Advertising*
 Marc A. Lefebvre, *Field Operations*
 Seymour Lusterman, *Market Research*
 Henry E. McGovern, *Equipment*
 Raymond D. Mock, *Central Division*
 Neil A. Morrison, *Plant Design and Engineering*
 Richard C. Petrie, *Southern Division*
 Carl B. Salts
 John A. Schiffman
 Frederick Sorensen, *Eastern Division*
 John J. Soughan, *Marketing Services*
 A. Allen Thomson, *Sugar Division*

 Vincent M. Burke, *Assistant Treasurer*
 James W. Robertson, *Assistant Secretary*
 Harold E. Rome, *Assistant Secretary*

PRESIDENTS OF SUBSIDIARY COMPANIES

Donald M. Kendall,
President of Pepsi-Cola International, Ltd.
 Frank W. McIntosh,
President of Pepsi-Cola Company of Canada, Ltd.
 Philip Rubenstein,
President of Pepsi-Cola Metropolitan Bottling Company, Inc.

TRANSFER AGENTS

The Marine Midland Trust Company of New York
 The First National Bank of Jersey City
 Harris Trust and Savings Bank (Chicago, Illinois)

REGISTRARS

The Chase Manhattan Bank, New York
 The First National Bank of Chicago

COUNSEL

Hays, Algase, Feuer, Porter & Spanier
General Counsel to Pepsi-Cola Company
 Seligson, Morris & Neuburger
General Counsel to Pepsi-Cola Metropolitan Bottling Company, Inc.



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New York 22, New York

DIVISION OFFICES

Central

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Chicago 1, Illinois

Eastern

1012 14th Street, N.W.
Washington 5, D. C.

Southern

Vaughan Building
Dallas 1, Texas

Western

223 South Beverly Drive
Beverly Hills, California

REGIONAL OFFICES

1401 Peachtree Building
Atlanta 9, Georgia

35 East Wacker Drive
Chicago 1, Illinois

4300 LeVeque Lincoln Tower Building
Columbus 15, Ohio

Vaughan Building
Dallas 1, Texas

817 17th Street
Denver 2, Colorado

785 Market Street
San Francisco 3, California

37 Lewis Street
Hartford 3, Connecticut

1012 14th Street, N.W.
Washington 5, D. C.

1404 Wachovia Bank Building
Charlotte 2, North Carolina

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